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LEGISLATIVE COUNCIL

FINANCIAL-COMPLIANCE AUDIT FOR THE
TWO FISCAL YEARS ENDED JUNE 30, 1985

PERFORMED UNDER CONTRACT BY:

EVE LAIRD & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

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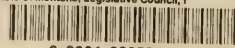
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STATE OF MONTANA
LEGISLATIVE COUNCIL

FINANCIAL-COMPLIANCE AUDIT FOR THE
TWO FISCAL YEARS ENDED JUNE 30, 1985

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STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122



SCOTT A. SEACAT
LEGISLATIVE AUDITOR

October 29, 1985

DEPUTY LEGISLATIVE AUDITORS:

JAMES GILLETT
FINANCIAL COMPLIANCE AUDITS

JIM PELLEGRINI
PERFORMANCE AUDITS

LEGAL COUNSEL:

JOHN W. NORTHEY

The Legislative Audit Committee
of the Montana State Legislature:

Enclosed is the report on the audit of the Legislative Council for
the two fiscal years ended June 30, 1985.

The audit was conducted by Eve Laird and Company under a contract
between the firm and our office. The comments and recommendations
contained in this report represent the views of the firm and not
necessarily the Legislative Auditor.

The agency's written response to the report recommendations is
included in the back of the audit report.

Respectfully submitted,

A handwritten signature in cursive script that reads "James Gillett".

James Gillett
Deputy Legislative Auditor

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ELECTED AND APPOINTED OFFICIALS
LEGISLATIVE COUNCIL

1985-1987

SENATORS

Allen Kolstad, Chairman
M.K. Daniels, Vice-Chairman
Jack Galt
J.D. Lynch

REPRESENTATIVES

Rex Manuel
Ralph Eudaily
Robert Marks
John Vincent

Diana Dowling, Executive Director

1983-1985

SENATORS

Allen Kolstad, Vice-Chairman
Pat Goodover
Carroll Graham
M.K. Daniels

REPRESENTATIVES

Rex Manuel, Chairman
Ralph Eudaily
Robert Marks
John Vincent

Diana Dowling, Executive Director

SUMMARY OF RECOMMENDATIONS

This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's response.

Page

Recommendation #1

That all property acquisitions be recorded into the PAMS listing in a timely fashion, so that the PAMS listing is current and available for financial statements purposes.

3

Agency Response: Concur. See page 14.

Recommendation #2

That the accounting records are updated monthly to agree with the perpetual inventory records.

3

Agency Response: Disagree. See page 14.

Recommendation #3

That the Legislative Council take a physical inventory of fixed assets during the period of our examination.

3

Agency Response: Concur. See page 14.

Recommendation #4

That the Legislative Council retain the inventory sheets for future reference, to support the quantities on hand.

4

Agency Response: Concur. See page 14.

INTRODUCTION

We performed a financial-compliance audit of the Legislative Council for the two fiscal years ended June 30, 1985. The objectives of the audit were to: (1) determine if the financial schedules present fairly the Council's results of operations for the two fiscal years ended June 30, 1985; (2) determine if the Council complied with applicable laws and regulations; and (3) make recommendations for improvement in the management and internal controls of the Council.

This report contains recommendations to the Council. These recommendations address areas where the Council can improve management, internal control, financial reporting, and compliance with laws and regulations. Other areas of concern deemed not to have a significant effect on the successful operations of the Council's programs are not specifically included in the report, but have been discussed with management.

In accordance with Section 5-13-307, MCA, we analyzed the costs of implementing the recommendations made in this report. Each report section discloses the cost, if significant, of implementing the recommendation.

We thank the staff of the Legislative Council for their cooperation and assistance during our audit.

BACKGROUND

Title 5, Chapter 5 and 11, MCA, established the Legislative Council as an eight-member council. The function of the Council is to provide legal services, bill drafting and research to the Legislature and interim committees. The Legislative Council also enrolls, prints, and mails all bills and prepares House and Senate Journals and Session Laws for publication. The staff also provides for the recodification and indexing of Montana Statutes.

The Legislative Council consists of:

Legislative Research
Legislative Services
Management
Legal Services
Interim Studies and Conferences
Montana Codes Annotated

INTERNAL CONTROL

We have examined the financial schedules of the Legislative Council for the two fiscal years ended June 30, 1985. We issued our opinion dated October 17, 1985 on these schedules. As part of our examination, we made a study and evaluation of the Council's control system. Our study evaluated the system as required by generally accepted governmental auditing standards for financial and compliance audits. We classified the controls in the following categories:

1. Expenditures/liabilities;
2. property, plant, and equipment;
3. payroll; and
4. revenue/receivables.

Our study included the control categories listed above. We applied alternative audit tests to property, plant, and equipment as we determined it was more efficient to expand substantive testing for this area. Through our study, we determined the nature, timing, and extent of our auditing procedures. We did not evaluate the control system to the extent necessary to give an opinion on either individual segments or the system as a whole.

The management of the Legislative Council is responsible for establishing and maintaining a system of accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable assurance that: (1) assets are safeguarded against loss from unauthorized use or disposition; (2) transactions are executed in accordance with management's authorization; and (3) transactions are recorded properly to permit the preparation of financial schedules in accordance with state accounting policies. Inherent limitations in any system of controls may cause errors or irregularities to remain undetected. The current system evaluation should not be used to project to future periods since the procedures may become inadequate or compliance with them may deteriorate.

The limited purpose of our study described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of controls used by the Legislative Council.

This report is intended solely for the use of management and the Legislature and should not be used for any other purpose. This restriction as to use is not intended to limit the distribution of this document which, upon presentation to the Legislative Audit Committee, is a matter of public record.

The following report items discuss areas of concern noted during our audit of the Legislative Council.

FIXED ASSETS INVENTORY

Property Accountability Management System (PAMS) was set up by the State of Montana as a subsystem for the accounting to manage and account for fixed assets which are owned by the State. The Legislative Council has not utilized the PAMS and these problems are discussed in the following paragraphs.

None of the acquisitions of fixed assets obtained by the Legislative Council during the two years ended June 30, 1985 have been entered into the PAMS listing. All fixed assets over \$200 are to be recorded in the property accounting as required by accounting policy. Unrecorded fixed assets have been discussed with the division officials and it has been verified that the Council is now in the process of recording the fixed assets that were acquired during the audit period. Apparently, there is a problem within the Council with the timely recording of fixed assets acquisitions.

Recommendation

We recommend that all property acquisitions be recorded into the PAMS listing in a timely fashion, so that the PAMS listing is current and available for financial statement purposes.

PERPETUAL INVENTORY RECORDS

Perpetual inventory records are being used for the Montana Code Annotated Inventory, and for the Constitutional Convention Sets, however, the SBAS accounting records are not adjusted on a monthly basis to reflect the changes in the perpetual records.

Recommendation

We recommend that the accounting records are updated monthly to agree with the perpetual inventory records.

PHYSICAL INVENTORY

The Legislative Council has not taken a physical inventory of fixed assets during the period of our audit examination.

Recommendation

We recommend that the Legislative Council take a physical inventory of fixed assets on a yearly basis.

INVENTORY COUNT SHEETS

An inventory of the Montana Code Annotated and the Con-Con Publications was taken at April 4, 1985, however, the inventory count sheets were not kept by the Legislative Council for future reference.

Recommendation

We recommend that the Legislative Council retain the inventory sheets for future reference, to support the quantities on hand.

Prior Audit Comments

The Legislative Council was last audited for the two fiscal years ended June 30, 1983 under a contract with Kindred Holland & Co. The audit report contained two recommendations, both of which were implemented.

STATE COMPLIANCE

We reviewed compliance with state laws that could have a material impact on the financial schedules of the Council. In our opinion, the Council complied with the state laws and regulations tested. Nothing came to our attention that causes us to believe untested compliance issues are not in accordance with applicable laws and regulations.

AUDITORS' REPORT
AND SCHEDULES OF AGENCY FINANCIAL ACTIVITY

**Eve Laird & Company
Certified Public Accountants**

**Suite 514 Strain Building
Great Falls, Montana 59401
Phone (406) 727-1798**

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the financial schedules of the Legislative Council for each of the two fiscal years ended June 30, 1985 and 1984 as listed in the table of contents. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note 1 to the financial schedules, the Legislative Council's financial schedules are prepared in accordance with state accounting policy. Accordingly, the accompanying financial schedules are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the schedules referred to above present fairly the results of operations and the changes in fund balance of the Legislative Council for the two fiscal years ended June 30, 1985, in conformity with the basis of accounting described in Note 1, applied on a consistent basis.

Eve Laird & Company

**EVE LAIRD & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS**

October 17, 1985

LEGISLATIVE COUNCIL
SCHEDULE OF CHANGES IN FUND BALANCE
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1985

	GENERAL FUND	SPECIAL REVENUE FUND
Fund Balance, July 1, 1983	\$0	\$682,131
ADDITIONS:		
FISCAL YEAR 1984		
Budgeted Revenue and Transfers In	19,167	663,284
Non-Budgeted Revenue and Transfers In	(4,900)	65,202
Total Revenue and Transfers In	14,267	728,486
Prior Year Revenue Adjustments		(1,705)
Support from State of Montana	1,623,587	
FISCAL YEAR 1985		
Budgeted Revenue and Transfers In	13,276	41,247
Non-Budgeted Revenue and Transfers In	(9,100)	(64,113)
Total Revenue and Transfers In	4,176	(22,866)
Prior Year Revenue Adjustments		
Support from State of Montana	2,354,565	
TOTAL ADDITIONS	3,996,595	703,915
REDUCTIONS:		
FISCAL YEAR 1984		
Budgeted Expenditures and Transfers Out	1,643,439	534,931
Non-Budgeted Expenditures and Transfers Out		
Total Expenditures and Transfers Out	1,643,439	534,931
Prior Year Expenditures Adjustments	(5,585)	
Prior Year Expenditures		
Direct Entry to Fund Balance		31,980
FISCAL YEAR 1985		
Budgeted Expenditures and Transfers Out	2,359,062	234,117
Non-Budgeted Expenditures and Transfers Out		
Total Expenditures and Transfers Out	2,359,062	234,117
Prior Year Expenditures Adjustments	(323)	51
Prior Year Expenditures	2	590
TOTAL REDUCTIONS	3,996,595	801,669
FUND BALANCE, JUNE 30, 1985	\$0	\$584,377

See the accompanying accountants' report and notes to the financial schedules.

LEGISLATIVE COUNCIL
SCHEDULE OF REVENUE - ESTIMATED AND ACTUAL
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1985

	SALE OF DOCUMENTS AND MERCHANDISE	CONSTITUTIONAL CONVENTION INVENTORY CHANGES	MONTANA CODE ANNOTATED INVENTORY CHANGES	TOTALS
<u>FISCAL YEAR 1984</u>				
General Fund				
Estimated Revenue	\$22,000	\$0		\$22,000
Actual Revenue	19,167	(4,900)		14,267
	<hr/>	<hr/>		<hr/>
Collections Over (Under) Estimate	(\$2,833)	(\$4,900)		(\$7,733)
	=====	=====		=====
Special Revenue Fund				
Estimated Revenue	\$450,000		\$0	\$450,000
Actual Revenue	663,284		58,060	721,344
	<hr/>		<hr/>	<hr/>
Collections Over (Under) Estimate	\$213,284		\$58,060	\$271,344
	=====		=====	=====
<u>FISCAL YEAR 1985</u>				
General Fund				
Estimated Revenue	\$25,000	\$0		\$25,000
Actual Revenue	13,276	(9,100)		4,176
	<hr/>	<hr/>		<hr/>
Collections Over (Under) Estimate	(\$11,724)	(\$9,100)		(\$20,824)
	=====	=====		=====
Special Revenue Fund				
Estimated Revenue	\$45,000		\$0	\$45,000
Actual Revenue	41,247		(66,785)	(25,538)
	<hr/>		<hr/>	<hr/>
Collections Over (Under) Estimate	(\$3,753)		(\$66,785)	(\$70,538)
	=====		=====	=====

See the accompanying accountants' report and notes to the financial schedules.

LEGISLATIVE COUNCIL
SCHEDULE OF PROGRAM EXPENDITURES BY OBJECT
FOR THE FISCAL YEAR ENDED JUNE 30, 1984

	LEGISLATIVE COUNCIL FEED BILL	INTERIM STUDIES & CONFERENCES	MONTANA CODE ANNOTATED	LEGISLATIVE COUNCIL	TOTALS
	-----	-----	-----	-----	-----
GENERAL FUND					
Budget	\$191,703	\$389,066	\$0	\$1,625,660	\$2,206,429
Actual	-----	-----	-----	-----	-----
Personal Services	1,549	45,576		996,326	1,043,451
Operating Expenses	95,254	137,564		284,627	517,445
Equipment		206		82,337	82,543
Total Actual	96,803	183,346	0	1,363,290	1,643,439
Unspent Appropriation Authority	\$94,900	\$205,720	\$0	\$262,370	\$562,990
	=====	=====	=====	=====	=====
SPECIAL REVENUE FUND					
Budget	\$0	\$10,000	\$528,140	\$0	\$538,140
Actual	-----	-----	-----	-----	-----
Personal Services		2,115			2,115
Operating Expenses		5,454	516,534		521,988
Equipment			10,828		10,828
Total Actual	0	7,569	527,362	0	534,931
Unspent Appropriation Authority	\$0	\$2,431	\$778	\$0	\$3,209
	=====	=====	=====	=====	=====
ALL FUNDS TOTAL					
Budget	\$191,703	\$399,066	\$528,140	\$1,625,660	\$2,744,569
Actual	-----	-----	-----	-----	-----
Personal Services	1,549	47,691	0	996,326	1,045,566
Operating Expenses	95,254	143,018	516,534	284,627	1,039,433
Equipment	0	206	10,828	82,337	93,371
Total Actual	96,803	190,915	527,362	1,363,290	2,178,370
Unspent Appropriation Authority	\$94,900	\$208,151	\$778	\$262,370	\$566,199
	=====	=====	=====	=====	=====

See the accompanying accountants' report and notes to the financial schedules.

LEGISLATIVE COUNCIL
SCHEDULE OF PROGRAM EXPENDITURES BY OBJECT
FOR THE FISCAL YEAR ENDED JUNE 30, 1985

	LEGISLATIVE COUNCIL FEED BILL	INTERIM STUDIES & CONFERENCES	MONTANA CODE ANNOTATED	LEGISLATIVE COUNCIL	TOTALS
GENERAL FUND					
Budget	\$744,422	\$279,404	\$0	\$2,042,811	\$3,066,637
Actual					
Personal Services	83,331	29,889		1,217,249	1,330,469
Operating Expenses	412,149	148,569		440,737	1,001,455
Equipment	170	6,788		20,180	27,138
Total Actual	495,650	185,246	0	1,678,166	2,359,062
Unspent Appropriation Authority	\$248,772	\$94,158	\$0	\$364,645	\$707,575
SPECIAL REVENUE FUND					
Budget	\$0	\$1,840	\$277,000	\$0	\$278,840
Actual					
Personal Services		610			610
Operating Expenses		1,047	37,830		38,877
Equipment			194,630		194,630
Total Actual	0	1,657	232,460	0	234,117
Unspent Appropriation Authority	\$0	\$183	\$44,540	\$0	\$44,723
ALL FUNDS TOTAL					
Budget	\$744,422	\$281,244	\$277,000	\$2,042,811	\$3,345,477
Actual					
Personal Services	83,331	30,499	0	1,217,249	1,331,079
Operating Expenses	412,149	149,616	37,830	440,737	1,040,332
Equipment	170	6,788	194,630	20,180	221,768
Total Actual	495,650	186,903	232,460	1,678,166	2,593,179
Unspent Appropriation Authority	\$248,772	\$94,341	\$44,540	\$364,645	\$752,298

See the accompanying accountants' report and notes to the financial schedules.

LEGISLATIVE COUNCIL
SCHEDULE OF PROGRAM EXPENDITURES BY OBJECT
FOR THE FISCAL YEAR ENDED JUNE 30, 1984

	LEGISLATIVE COUNCIL FEED BILL	INTERIM STUDIES & CONFERENCES	MONTANA CODE ANNOTATED	LEGISLATIVE COUNCIL	TOTALS
Personal Services					
Salaries	\$1,434	\$11,620	\$0	\$832,864	\$845,918
Hourly Wages		33,560		2,424	35,984
Other Compensation		2,511			2,511
Employee Benefits	115			161,038	161,153
Total Personal Services	1,549	47,691	0	996,326	1,045,566
Operating Expenses					
Contracted Services	90,718	4,827	475,451	186,214	757,210
Supplies & Materials	799	5,196	987	16,914	23,896
Communications	3,687	3,538	38,059	21,331	66,615
Travel	22	62,914	2,028	12,753	77,717
Rent		226		30,643	30,869
Repair & Maintenance				10,458	10,458
Other Expenses	28	66,317	9	6,314	72,668
Total Operating Expenses	95,254	143,018	516,534	284,627	1,039,433
Equipment	0	206	10,828	82,337	93,371
TOTAL PROGRAM EXPENDITURES	\$96,803	\$190,915	\$527,362	\$1,363,290	\$2,178,370

See the accompanying accountants' report and notes to the financial schedules.

LEGISLATIVE COUNCIL
SCHEDULE OF PROGRAM EXPENDITURES BY OBJECT
FOR THE FISCAL YEAR ENDED JUNE 30, 1985

	LEGISLATIVE COUNCIL FEED BILL	INTERIM STUDIES & CONFERENCES	MONTANA CODE ANNOTATED	LEGISLATIVE COUNCIL	TOTALS
	-----	-----	-----	-----	-----
Personal Services					
Salaries	\$77,146	\$10,841	\$0	\$1,020,944	\$1,108,931
Hourly Wages		17,979		4,602	22,581
Other Compensation		275			275
Employee Benefits	6,185	1,404		191,703	199,292
	-----	-----	-----	-----	-----
Total Personal Services	83,331	30,499	0	1,217,249	1,331,079
	-----	-----	-----	-----	-----
Operating Expenses					
Contracted Services	276,466	42,357	27,686	292,211	638,720
Supplies & Materials	8,852	5,846	5,062	50,428	70,188
Communications	126,556	2,845	3,926	24,547	157,874
Travel		37,063	1,156	13,602	51,821
Rent	275			41,866	42,161
Repair & Maintenance				12,482	12,482
Other Expenses		61,505		5,581	67,086
	-----	-----	-----	-----	-----
Total Operating Expenses	412,149	149,616	37,830	440,737	1,040,332
	-----	-----	-----	-----	-----
Equipment	170	6,788	194,630	20,180	221,768
	-----	-----	-----	-----	-----
TOTAL PROGRAM EXPENDITURES	\$495,650	\$186,903	\$232,460	\$1,678,166	\$2,593,179
	=====	=====	=====	=====	=====

See the accompanying accountants' report and notes to the financial schedules.

LEGISLATIVE COUNCIL

NOTES TO THE FINANCIAL SCHEDULES JUNE 30, 1985 AND 1984

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Legislative Council utilizes the modified accrual basis of accounting which is described in the Montana Operations Manual.

Under the modified accrual basis of accounting, a valid obligation exists when the related liability is incurred except for the following items which are also considered valid obligations under state accounting policy.

- If the appropriation provided funds to complete a given project, the entire amount of a service contract may be accrued even though the services are rendered in fiscal years subsequent to the fiscal year in which the expenditure is accrued.
- The anticipated cost of equipment is expensed in the fiscal year in which budgeted.
- Goods ordered, but not received as of the fiscal year-end, may be accrued if the purchase order was issued in the fiscal year in which the anticipated expenditure is to be accrued.

Basis of Presentation

The financial schedules were prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustments. Accounts are organized on the basis of funds according to State law. The following fund types are used by the office:

General - accounts for all financial resources except those required to be accounted for in another fund.

Special Revenue - accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Legislative appropriation is required to spend from the fund.

Vacation and Sick Leave

Employees are paid for 100 percent of unused vacation and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for vacation and sick leave are not reflected in the financial schedules of the Legislative Council. Expenditures for termination pay currently are absorbed in the annual operational costs of the office. At June 30, 1985, the office had a liability of \$68,874 for vacation leave and \$28,874 for sick leave.

LEGISLATIVE COUNCIL

NOTES TO THE FINANCIAL SCHEDULES (CONT.) JUNE 30, 1985 AND 1984

2. PENSION PLAN

Employees are covered by the Montana Public Employees' Retirement System (PERS). The Council's contributions to the plan are shown below:

	Fiscal Year <u>1984-85</u>	Fiscal Year <u>1983-84</u>
PERS	\$60,604	\$53,470

3. GENERAL FUND BALANCE

The General Fund is a statewide fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the statewide General Fund as long as they stay within their appropriation limits. Thus, on an agency schedule, the General Fund beginning and ending fund balance will always be zero.

4. GENERAL FIXED ASSETS

The office records assets on the State's Property and Accountability Management System. The general fixed asset equipment balance at June 30, 1985 is \$130,118. This amount does not include acquisitions during the fiscal years 1985 and 1984, which were not recorded on the Property and Accountability Management System.

AGENCY RESPONSES

SENATE MEMBERS
ALLEN C. KOLSTAD
CHAIRMAN
M. K. DANIELS
VICE CHAIRMAN
JACK E. GALT
J. D. LYNCH

HOUSE MEMBERS
RALPH S. EUDAILY
REX MANUEL
ROBERT L. MARKS
JOHN VINCENT



Montana Legislative Council

State Capitol
Helena, MT. 59620

(406) 444-3064

DIANA S. DOWLING
EXECUTIVE DIRECTOR
CODE COMMISSIONER
GREGORY J. PETESCH
DIRECTOR, LEGAL SERVICES
ROBERT PERSON
DIRECTOR, RESEARCH
SHAROLE CONNELLY
DIRECTOR, ACCOUNTING SERVICES
HENRY C. TRENK
DIRECTOR, LEGISLATIVE SERVICES
HELEN J. MACPHERSON
DIRECTOR, SECRETARIAL SERVICES

November 14, 1985

Legislative Council Response Financial Compliance Audit Two Fiscal Years Ending June 30, 1985

Fixed Assets Inventory

Agree. At the present time, all fixed assets are being entered into PAMS and into a Council personal computer using a program developed in-house. This program is much more useful for inventory purposes than PAMS. The Purchasing and Supply Officer has set aside one day a week for this task until it is complete. In the future, fixed assets will be entered into both systems upon receipt.

Perpetual Inventory Records

Disagree. Since SBAS does not prepare external monthly reports, nothing would be gained by updating SBAS monthly. The Council adjusts inventory at fiscal year end for SBAS annual reports. In-house inventory records are always up-to-date, however.

Physical Inventory

Agree. The new PC computerized inventory program will be used for an annual inventory.

Inventory Count Sheets

Will comply. We fail to see how little slips of paper with markings on them are of any value. The count was entered on computer for future reference, but we will comply with the recommendations and keep original documents.

I would also like it of record that the Eve Laird auditors were extremely conscientious and considerate. The Council staff found them easy to work with and appreciative of our efforts. We thank them!

-14-

DSD6/hm/5318a

Diana S. Dowling

